

# Glossary

## A

**actual cash value** a method of insurance claim settlement in which the payment the insured receives is based on the replacement cost of an item minus depreciation (p. 426)

**adjustable-rate mortgage (ARM)** a mortgage with an interest rate that increases or decreases during the life of the loan, also known as a “variable-payment mortgage” (p. 222)

**adjusted gross income** gross income after certain reductions are calculated (p. 384)

**allowance** an adjustment to the tax withheld from your paycheck, based on your marital status and whether you have dependents (p. 386)

**amortization** the reduction of a loan balance through payments made over a period of time (p. 221)

**annual percentage rate (APR)** the cost of credit on a yearly basis, expressed as a percentage (p. 163)

**annual percentage yield (APY)** the amount of interest that a \$100 deposit would earn, after compounding, for one year (p. 137)

**annuity** a series of equal regular deposits to a savings account (p. 22)

**annuity (insurance)** a contract purchased from an insurance company that guarantees a future fixed or variable payment to the purchaser for a certain number of years or for life (p. 495)

**appraisal** an estimate of the current value of the property (p. 226)

**aptitudes** the natural abilities people possess (p. 34)

**arbitration** a process whereby a conflict between a customer and a business is resolved by an impartial third party whose decision is legally binding (p. 108)

**assets** items of value that an individual or company owns, including cash, property, personal possessions, and investments (p. 65)

**assigned risk pool** a group of people who cannot get motor vehicle insurance (p. 436)

**assisted-living facility (ALF)** a residence complex that provides personal and medical services for the elderly (p. 485)

**automated teller machine (ATM)** a computer terminal that allows a withdrawal of cash from an account (p. 126)

## B

**bank reconciliation** a report that accounts for the differences between the bank statement and your checkbook balance (p. 145)

**bankruptcy** a legal process in which some or all of the assets of a debtor are distributed among the creditors because the debtor is unable to pay his or her debts (p. 188)

**bear market** market condition that occurs when investors are pessimistic about the economy and sell stocks (p. 285)

**bearer bond** a bond that is not registered in the investor's name (p. 310)

**beneficiary (estate)** a person who is named to receive a portion of someone's estate (p. 499)

**beneficiary (insurance)** a person named to receive the benefits from an insurance policy (p. 464)

**Blue Cross** an insurance company that provides hospital care benefits (p. 453)

**Blue Shield** an insurance company that provides benefits for surgical and medical services performed by physicians (p. 453)

**blue-chip stock** a safe investment that generally attracts conservative investors, usually stocks issued by the strongest and most respected companies (p. 277)

**bodily injury liability** insurance that covers physical injuries caused by a vehicle accident for which you were responsible (p. 430)

**budget** a plan for using money to meet wants and needs (p. 74)

**budget variance** the difference between the budgeted amount and the actual amount that you spend (p. 77)

**bull market** market condition that occurs when investors are optimistic about the economy and buy stocks (p. 285)

## C

**cafeteria-style employee benefits** programs that allow workers to choose the benefits that best meet their personal needs (p. 49)

**capital gain** profit from the sale of assets such as stocks, bonds, or real estate (p. 261)

**capital loss** the sale of an investment for less than its purchase price (p. 262)

**capitalization** the total amount of stocks and bonds issued by a corporation (p. 279)

**career** a commitment to work in a field that you find interesting and fulfilling (p. 32)

**cash flow** the money that goes into and out of your wallet and bank accounts (p. 70)

**cash value** in a whole life policy, the accumulated savings to which you are entitled when and if you cancel the policy (p. 467)

**certificate of deposit (CD)** a savings alternative in which money is left on deposit for a stated period of time to earn a specific rate of return (p. 132)

**class-action suit** a legal action on behalf of all the people who have suffered the same injustice (p. 110)

**closed-end credit** credit as a one-time loan that you will pay back over a specified period of time in payments of equal amounts (p. 157)

**closed-end fund** a mutual fund with a fixed number of shares that are issued by an investment company when the fund is first organized (p. 327)

**closing** a meeting of the seller, the buyer, and the lender of funds, or representatives of each party, to complete the transaction (p. 223)

**codicil** a document that explains, adds, or deletes provisions in an existing will (p. 504)

**coinsurance** the percentage of the medical expenses the policyholder must pay in addition to the deductible amount (p. 447)

**collateral** a form of security to help guarantee that the creditor will be repaid (p. 166)

**collectibles** items that appeal to collectors and investors, including rare coins, works of art, antiques, stamps, rare books, comic books, sports memorabilia, rugs, ceramics, and paintings (p. 366)

**collision** insurance that covers damage to your vehicle when it is involved in an accident (p. 432)

**commercial bank** a for-profit institution that offers a full range of financial services, including checking, savings, and lending (p. 129)

**commercial property** land and buildings that produce rental income (p. 353)

**common stock** a unit of ownership of a company that entitles the owner, or stockholder, to voting privileges (p. 250)

**compounding** the process in which interest is earned on both the principal—the original amount you deposited—and on any previously earned interest (p. 136)

**consumer** a person who purchases and uses goods or services (p. 17)

**consumer credit** the use of credit for personal needs (p. 154)

**consumer price index (CPI)** a measure of the changes in prices for commonly purchased goods and services in the United States (p. 77)

**convertible bond** a bond that an investor can trade for shares of the corporation's common stock (p. 307)

**cooperative** a nonprofit organization owned and operated by its members for the purpose of saving money on the purchase of goods and services (p. 99)

**cooperative education** a program that allows students to enhance classroom learning with part-time work related to their majors and interests (p. 41)

**co-payment** a flat fee that you pay every time you receive a covered service (p. 449)

**corporate bond** a corporation's written pledge to repay a specific amount of money, along with interest (p. 251)

**cosigning** agreeing to be responsible for another person's loan payments if that person fails to make them (p. 182)

**coupon bond** a bond that is registered in the owner's name for the face value only and not for interest (p. 310)

**cover letter** a personal letter you present along with your résumé (p. 45)

**credit** an arrangement to receive cash, goods, or services now and pay for them in the future (p. 154)

**credit rating** a measure of a person's ability and willingness to make credit payments on time (p. 170)

**credit union** a nonprofit financial institution that is owned by its members and organized for their benefit (p. 130)

**creditor** an entity, such as a financial institution, merchant, or individual, that lends money (p. 154)

**current yield** the annual dividend of an investment divided by the current market value (p. 286)

**cyclical stock** stock with a market value that tends to reflect the state of the economy (p. 278)

## D

**debenture** a bond that is backed only by the reputation of the issuing corporation, rather than by its assets (p. 306)

**debit card** a cash card that allows you to withdraw money or pay for purchases from your checking or savings account (p. 126)

**deductible** the set amount that a policyholder must pay per loss on an insurance policy (p. 414)

**deed** the official document transferring ownership from seller to buyer (p. 224)

**defensive stock** stock that remains stable during declines in the economy (p. 278)

**deficit** the financial situation that occurs when more money is spent than is earned or received (p. 72)

**defined-benefit plan** a retirement plan that specifies the benefits an employee will receive at retirement age, based on total earnings and years on the job (p. 489)

**defined-contribution plan** an individual retirement account for each employee, also called an “individual account plan” (p. 488)

**demand** the amount of goods and services people are willing to buy (p. 14)

**demographic trends** tendencies of people grouped by age, gender, ethnicity, education, or income that change over time (p. 37)

**direct deposit** an automatic deposit of net pay to an employee’s designated bank account (p. 125)

**direct investment** real estate investment in which the owner holds legal title to the property he or she has purchased (p. 352)

**disability income insurance** coverage that provides regular cash income when you are unable to work due to a pregnancy, non-work-related accident, or illness (p. 460)

**discretionary income** the money left after paying for the essentials, such as food, clothing, shelter, transportation, and medication (p. 71)

**diversification** the process of spreading your assets among several different types of investments to reduce risk (p. 254)

**dividends** distributions of money, stock, or other property that a corporation pays to stockholders (p. 246)

**down payment** a portion of the total cost of an item that must be paid at the time of purchase (p. 96)

## E

**earnings per share** a corporation’s net, or after-tax, earnings divided by the number of outstanding shares of common stock (p. 287)

**economics** the study of the decisions that go into making, distributing, and using goods and services (p. 14)

**economy** the ways in which people make, distribute, and use their goods and services (p. 14)

**emergency fund** a savings account you can access quickly to pay for unexpected expenses or emergencies (p. 238)

**endorsement** the signature of the payee, the party to whom the check has been written (p. 144)

**endowment** life insurance that provides coverage for a specific period of time and pays a sum of money to the policyholder if he or she is living at the end of the endowment period (p. 468)

**equity** the value of the home less the amount still owed on the money borrowed to purchase it (p. 209)

**equity capital** money that a business gets from its owners in order to operate (p. 250)

**escrow account** an account where money is held in trust until it can be delivered to a designated party (p. 217)

**estate** all property and assets owned by an individual or group (p. 499)

**estate planning** the process of creating a detailed plan for managing personal assets to make the most of them while you are alive and to ensure that they are distributed wisely after your death (p. 499)

**estate tax** a federal tax collected on the value of a person’s property at the time of his or her death (p. 381)

**exclusion** income that is not subject to taxes, also called “tax-exempt income” (p. 383)

**executor** a person who is willing and able to perform the tasks involved in carrying out a will (p. 504)

**exemption** a deduction from adjusted gross income for the taxpayer, the spouse, and qualified dependents (p. 385)

**extension** an extended deadline for filing an income tax return (p. 391)

## F

**face value** the dollar amount that the bondholder will receive at the bond’s maturity (p. 306)

**Federal Reserve System** the central banking organization of the United States (p. 16)

**finance charge** the total dollar amount you pay to use credit (p. 160)

**financial leverage** the use of borrowed funds for direct investment purposes (p. 358)

**financial planner** a specialist who is trained to offer specific financial help and advice (p. 257)

**fixed-rate mortgage** a mortgage with a fixed interest rate and a fixed schedule of payments, also called a “conventional mortgage” (p. 221)

**401(k) plan** a type of retirement savings plan funded by a portion of your salary that is deducted from your gross paycheck and placed in a special account, also called a “salary-reduction plan” (p. 488)

**fraud** dishonest business practices that are meant to deceive, trick, or gain an unfair advantage (p. 104)

**future value** the amount your original deposit will be worth in the future based on earning a specific interest rate over a specific period of time (p. 21)

## G

**geographic trends** tendencies of people moving from one area of the country to another as financial centers shift location (p. 37)

**goals** things you want to accomplish (p. 6)

**good** a physical item that is produced and can be weighed or measured (p. 11)

**government bond** the written pledge of a government or a municipality, such as a city, to repay a specific sum of money with interest (p. 251)

**grace period** a time period during which no finance charges will be added to your account (p. 160)

**growth stock** stock issued by a corporation whose potential earnings may be higher than the average earnings predicted for all the corporations in the country (p. 278)

**guardian** the person who accepts the responsibility of caring for the children of the deceased and managing an estate for the children until they reach a certain age (p. 504)

## H

**hazard** anything that increases the likelihood of loss through peril (p. 413)

**health insurance** a form of protection that eases the financial burden people may experience as a result of illness or injury (p. 444)

**health maintenance organization (HMO)** a health insurance plan that directly employs or contracts with selected, or preapproved, physicians and other medical professionals to provide health care services in exchange for a fixed, prepaid monthly premium (p. 454)

**heirs** the people who will have the legal right to your assets when you die (p. 498)

**home equity loan** a loan based on the difference between the current market value of a home and the amount the borrower owes on the mortgage (p. 223)

**homeowners insurance** coverage that provides protection for your residence and its associated financial risks (p. 419)

## I

**impulse buying** purchasing items on the spur of the moment (p. 99)

**income** cash inflow, or the money you receive (p. 70)

**income dividends** the earnings a fund pays to shareholders (p. 341)

**income stock** stock that pays higher-than-average dividends compared to other stock issues (p. 277)

**income tax** tax on wages, salaries, and self-employed earnings (p. 382)

**income tax return** a form, such as 1040 or 1040EZ, on which a taxpayer reports how much money he or she received from working and other sources and the exact taxes that are owed (p. 383)

**indirect investment** a real estate investment in which a trustee is appointed to hold legal title to the property on behalf of an investor or group of investors (p. 354)

**individual retirement account (IRA)** a special account in which a person sets aside a portion of income for retirement (p. 490)

**inflation** rise in the level of prices for goods and services over time (p. 16)

**informational interview** a meeting with someone who works in your area of interest who can provide you with practical information about a career or company of interest (p. 43)

**inheritance tax** a state tax collected on the property left by a person to his or her heir(s) in a will (p. 381)

**insolvency** a financial state that occurs if liabilities are greater than assets (p. 69)

**insurance** protection against possible financial loss (p. 412)

**interest** the price that is paid for the use of another's money (p. 17)

**interest inventories** tests that help you identify the activities you enjoy the most (p. 34)

**internship** a position in which a person receives training by working with people who are experienced in a particular field (p. 41)

**intestate** a status of not having a valid will (p. 501)

**investment liquidity** the ability to buy or sell an investment quickly without substantially reducing its value (p. 249)

**investment-grade bonds** bonds that are issued by financially stable companies or municipalities (p. 323)

**itemized deduction** a specific expense, such as a medical expense, that you deduct from your adjusted gross income (p. 384)

## J

**job** work you do mainly to earn money (p. 32)



**K**

**Keogh plan** a retirement plan specially designed for self-employed people and their employees, also known as an “H.R.10 plan” or a “self-employed retirement plan” (p. 493)

**L**

**landlord** the person who owns the property that is rented (p. 202)

**large-cap stock** stock of a corporation that has issued a large number of shares of stock and has a large amount of capitalization (p. 279)

**lease** a legal document that defines the conditions of the rental agreement between the tenant and the landlord (p. 205)

**legal aid society** a network of community law offices that provide free or low-cost legal assistance (p. 111)

**liabilities** the debts you owe (p. 68)

**liability** legal responsibility for the financial cost of another person’s losses or injuries (p. 418)

**line of credit** the maximum amount of money a creditor will allow a credit user to borrow (p. 157)

**liquid assets** cash and items that can be quickly converted to cash (p. 67)

**liquidity** the ability to easily convert financial assets into cash without loss in value (p. 9)

**living will** a legal document in which you state if you want to be kept alive by artificial means if you become terminally ill and are unable to make such a decision (p. 505)

**load fund** a mutual fund for which you pay a commission every time you buy or sell shares (p. 328)

**M**

**managed care** prepaid health plans that provide comprehensive health care to their members (p. 453)

**market value** the price at which property would sell (p. 67)

**maturity date** the date when a bond will be repaid (p. 306)

**mediation** the attempt by a neutral third party to resolve a conflict between a customer and a business through discussion and negotiation (p. 108)

**Medicaid** a medical assistance program for certain low-income individuals and families (p. 458)

**medical payments coverage** insurance that pays the costs of minor accidental injuries to visitors on your property (p. 422)

**Medicare** a federally-funded health insurance program for people over 65 and people with certain disabilities (p. 456)

**mentor** an experienced employee who serves as a teacher and counselor for a less-experienced person (p. 52)

**minimum monthly payment** the smallest amount you can pay and remain a borrower in good standing (p. 168)

**mobility** the ability to move easily from place to place (p. 198)

**money management** planning how to get the most from your money (p. 60)

**money market account** a savings account that requires a minimum balance and earns interest that varies from month to month (p. 134)

**mortgage** a long-term loan extended to someone who buys property (p. 218)

**mortgage bond** a bond that is backed by assets of the corporation, also called a “secured bond” (p. 307)

**municipal bond** a security issued by a state or local government (town, city, or county) to pay for its ongoing activities (p. 317)

**mutual fund** an investment in which investors pool their money to buy stocks, bonds, or other securities selected by professional managers who work for an investment company (p. 252)

**N**

**negligence** the failure to take ordinary or reasonable care to prevent accidents from happening (p. 413)

**net asset value (NAV)** the amount one share of a mutual fund is worth (p. 328)

**net income** the income you receive (take-home pay, allowance, gifts, and interest) (p. 162)

**net worth** the difference between the amount that you own and the debts that you owe (p. 65)

**networking** making and using contacts to get job information and advice (p. 43)

**no-fault system** a system of insurance in which drivers who are involved in accidents collect money from their own insurance companies (p. 433)

**no-load fund** a mutual fund that has no commission fee (p. 329)

**O**

**open dating** a labeling method that indicates the freshness, or shelf life, of a perishable product, such as milk or bread (p. 100)

**open-end credit** credit as a loan with a certain limit on the amount of money you can borrow for a variety of goods and services (p. 157)

**open-end fund** a mutual fund with an unlimited number of shares that are issued and redeemed by an investment company at the investors' request (p. 327)

**opportunity cost** what is given up when making one choice instead of another (p. 8)

**overdraft protection** an automatic loan made to an account if the balance will not cover checks written (p. 141)

**over-the-counter (OTC) market** a network of dealers who buy and sell the stocks of corporations that are not listed on a securities exchange (p. 292)

## P

**par value** an assigned dollar value that is printed on a stock certificate (p. 275)

**participation certificate (PC)** an investment in a group of mortgages that have been purchased by a government agency (p. 357)

**penny stock** stock that typically sells for less than \$1 a share, although it can sell for as much as \$10 a share (p. 280)

**pension plan** a retirement plan that is funded at least in part by an employer (p. 49)

**peril** anything that may possibly cause a loss (p. 413)

**personal balance sheet** also a net worth statement, a financial statement that lists items of value owned, debts owed, and a person's net worth (p. 65)

**personal financial planning** arranging to spend, save, and invest money to live comfortably, have financial security, and achieve goals (p. 6)

**personal financial statement** a document that provides information about an individual's current financial position and presents a summary of income and spending (p. 65)

**personal property floater** additional property insurance that covers the damage or loss of a specific item of high value (p. 420)

**point-of-sale transaction** a purchase by a debit card of a good or service at a retail store, a restaurant, or elsewhere (p. 127)

**point-of-service (POS) plan** a health insurance plan that combines features of both HMOs and PPOs (p. 455)

**points** extra charges that must be paid by the buyer to the lender in order to get a lower interest rate (p. 219)

**policy** a contract between an insurance company and a person by which that person joins a risk-sharing group (p. 412)

**portfolio** a collection of all the securities held by an investor (p. 294)

**potential earning power** the amount of money you may earn over time (p. 33)

**power of attorney** a legal document that authorizes someone to act on your behalf (p. 506)

**precious gems** rough mineral deposits (usually crystals) that are dug from the earth by miners and then cut and shaped into brilliant jewels (p. 363)

**precious metals** valuable ores such as gold, platinum, and silver (p. 361)

**preferred provider organization (PPO)** a group of doctors and hospitals that agree to provide specified medical services to members at prearranged fees (p. 455)

**preferred stock** a type of stock that gives the owner the advantage of receiving cash dividends before common stockholders receive cash dividends (p. 250)

**premium** the fee a policyholder pays for insurance (p. 412)

**present value** the amount of money you would need to deposit now in order to have a desired amount in the future (p. 22)

**price-earnings (PE) ratio** the price of one share of stock divided by a corporation's earnings per share of stock over the last 12 months (p. 287)

**principal** the original amount of money you deposit (p. 20)

**private corporation** a company that issues stock to a small group of people, also called a "closely held corporation" (p. 272)

**private mortgage insurance (PMI)** a special policy that protects the lender in case the buyer cannot make payments or cannot make them on time (p. 218)

**probate** the legal procedure of proving that a will is valid or invalid (p. 503)

**property damage liability** motor vehicle insurance that applies when you damage the property of others (p. 432)

**prospectus** a document that discloses information about a company's earnings, assets and liabilities, its products or services, a particular stock, and the qualifications of its management (p. 263)

**public corporation** a company that sells its shares openly in stock markets, where anyone can buy them, also called a "publicly held corporation" (p. 272)

## R

**rate of return** the percentage of increase in the value of your savings from earned interest (p. 135)

**real estate** land and any structures that are on it, such as a house or other building, that a person or family owns (p. 67)

**rebate** a partial refund of the price of a product (p. 100)

**refinance** obtaining a new mortgage to replace an existing one (p. 223)

**registered bond** a bond registered in the owner's name by the company that issues the bond (p. 310)

**renters insurance** a type of insurance that covers the loss of a tenant's personal property as a result of damage or theft (p. 208)

**replacement value** a method for settling claims in which the insured receives the full cost of repairing or replacing an item (p. 426)

**résumé** one- or two-page summary of your education, training, work experience, and qualifications (p. 45)

**retained earnings** profits that a company reinvests (p. 249)

**risk** the chance of loss or injury (p. 412)

## S

**safe-deposit box** a small, secure storage compartment that you can rent in a bank (p. 63)

**savings and loan association (S&L)** a financial institution that traditionally specialized in savings accounts and mortgage loans but now offers many of the same services as commercial banks (p. 130)

**securities** all the investments that are bought and sold on the stock market, including stocks, bonds, mutual funds, options, and commodities (p. 272)

**securities exchange** a marketplace where brokers who represent investors meet to buy and sell securities (p. 291)

**security deposit** an amount of money paid to the owner of the property by a tenant to guard against any financial loss or damage that the tenant might cause (p. 208)

**serial bonds** bonds issued at the same time but that mature on different dates (p. 309)

**service** a task that a person or a machine performs for you (p. 11)

**service contract** a separately purchased agreement by the manufacturer or distributor to cover the costs of repairing an item (p. 103)

**service industries** businesses that provide services for a fee (p. 39)

**simple interest** the interest computed only on the principal, the amount that you borrow (p. 167)

**sinking fund** a fund to which a corporation makes deposits for the purpose of paying back a bond issue (p. 308)

**small claims court** a court that deals with legal disputes that involve amounts below a certain limit (p. 109)

**small-cap stock** stock issued by a company with a capitalization of \$500 million or less (p. 280)

**speculative investment** a high-risk investment that might earn a large profit in a short time (p. 243)

**standard deduction** an amount of money set by the IRS that is not taxed (p. 384)

**standard of living** a measure of quality of life based on the amounts and kinds of goods and services a person can buy (p. 32)

**stop-loss** an insurance policy provision that requires the policyholder to pay all costs up to a certain amount, after which the insurance company pays 100 percent of the remaining expenses covered in the policy (p. 447)

**stop-payment order** a request that a bank or other financial institution not cash a particular check (p. 143)

**supply** the amount of goods and services available for sale (p. 14)

**surplus** extra money that can be spent or saved, depending on a person's financial goals and values (p. 72)

**syndicate** a temporary association of individuals or business firms organized to perform a task that requires a large amount of funds (p. 355)

## T

**take-home pay** the amount of income left after taxes and other deductions are taken out of your gross pay (p. 71)

**tax audit** a detailed examination of your tax return by the IRS (p. 401)

**tax credit** an amount of money that can be subtracted directly from taxes you owe (p. 386)

**tax deduction** an expense that you can subtract from your adjusted gross income to figure your taxable income (p. 384)

**tax liability** the total amount of taxes owed (p. 380)

**taxable income** adjusted gross income less any allowable tax deductions and exemptions (p. 384)

**tax-deferred income** income that is taxed at a later date (p. 261)

**tax-exempt income** income that is not taxed (p. 261)

**tenant** a person who pays for the right to live in a residence owned by someone else (p. 202)

**term insurance** insurance that provides protection against loss of life for only a specified term, or period of time, also called "temporary life insurance" (p. 466)

**time value of money** the increase of an amount of money due to earned interest or dividends (p. 19)

**title insurance** a type of insurance that protects the property buyer in case problems with the title are found later (p. 224)

**total return** a calculation that includes the annual dividend as well as any increase or decrease in the original purchase price of an investment (p. 286)

**trends** developments that mark changes in a particular area (p. 32)

**trust** an arrangement in which a designated person known as a “trustee” manages assets for the benefit of someone else (p. 501)

## U

**uninsured motorist’s**

**protection** insurance that covers you and your family members if you are involved in an accident with an uninsured or hit-and-run driver (p. 432)

**unit pricing** the use of a standard unit of measurement to compare the prices of packages that are different sizes (p. 100)

## V

**values** beliefs and principles you consider important, correct, and desirable (p. 7)

**vesting** the right of an employee to keep the company’s contributions from company-sponsored plans, such as pensions, even if the employee no longer works for that employer (p. 489)

## W

**warranty** a written guarantee from the manufacturer or distributor that states the conditions under which the product can be returned, replaced, or repaired (p. 101)

**wealth** an abundance of valuable material possessions or resources (p. 65)

**whole life insurance** a permanent policy for which you pay a specified premium each year for the rest of your life (p. 467)

**will** a legal declaration of a person’s wishes regarding disposal of his or her estate after death (p. 500)

## Y

**yield** the rate of return, usually stated as a percentage, earned by an investor who holds a bond for a certain period of time (p. 323)

## Z

**zero-coupon bond** a bond that does not produce interest (p. 311)